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Group Holdings Limited

**2020 SDM
FIRST QUARTERLY REPORT
SDM Group Holdings Limited**

(Incorporated in the Cayman Islands with limited liability)

Stock code : 8363



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*This report, for which the directors (the "**Directors**") of SDM GROUP HOLDINGS LIMITED (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

FINANCIAL HIGHLIGHTS

For the three months ended 31 March 2020, unaudited results of the Group were as follows:

- revenue of the Group for the three months ended 31 March 2020 was approximately HK\$31.6 million (2019: HK\$25.9 million);
- loss for the period attributable to the shareholders of the Company for the three months ended 31 March 2020 amounted to approximately HK\$28.0 million (2019: HK\$9.6 million); and
- basic loss per share for the three months ended 31 March 2020 was approximately 7.91 HK cents (2019: 2.71 HK cents).

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The board of Directors (the “Board”) of the Company (together with its subsidiaries, the “Group”) is pleased to present the unaudited condensed consolidated results of the Group for the three months ended 31 March 2020, together with the unaudited comparative figures for the corresponding period in 2019, as follows:

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2020

	Notes	For the three months ended 31 March	
		2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Revenue	4	31,577	25,876
Other income		4,491	2,644
Other gains and losses		(555)	127
Changes in inventories of finished goods		374	178
Finished goods purchased		(879)	(708)
Advertising and promotion expenses		(4,978)	(1,097)
Depreciation and amortisation		(15,642)	(9,462)
Rental expenses		(457)	–
Staff and teaching consultants services costs		(29,332)	(17,305)
Other expenses		(10,405)	(8,920)
Finance costs	5	(2,914)	(2,107)
Share of results of an associate		(37)	–
Share of results of joint ventures		(372)	(171)
Loss before taxation		(29,129)	(10,945)
Income tax credit	6	55	56
Loss for the period		(29,074)	(10,889)
Other comprehensive income			
<i>Item that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations (nil tax effect)		(1,465)	(11)
Change in fair value on financial investments at fair value through other comprehensive income (nil tax effect)		(1,393)	–
Loss and total comprehensive income for the period		(31,932)	(10,900)

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the three months ended 31 March 2020

	Notes	For the three months ended 31 March	
		2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Loss for the period attributable to:			
Equity shareholders of the Company		(28,023)	(9,599)
Non-controlling interests		(1,051)	(1,290)
		(29,074)	(10,889)
Total comprehensive income attributable to:			
Equity Shareholders of the Company		(30,881)	(9,610)
Non-controlling interests		(1,051)	(1,290)
		(31,932)	(10,900)
Loss per share:			
		HK cents	HK cents
Basic	7	(7.91)	(2.71)
Diluted		N/A	N/A

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2020

1. GENERAL INFORMATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Cayman Companies Law on 12 February 2014 and its shares are listed on GEM of the Stock Exchange on 14 October 2014. Its parent is Wealthy Together Limited (“**Wealthy Together**”) (incorporated in the British Virgin Islands (“**BVI**”). Its ultimate controlling party is Mr. Chiu Ka Lok, the controlling shareholder, who is also the Chairman and Executive Director of the Company. The addresses of the Company’s registered office and principal place of business are Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands and Room 202B, 2/F., Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong respectively.

The Company is an investment holding company and its principal subsidiaries are mainly engaged in (i) business of jazz and ballet and pop dance academy in Hong Kong; (ii) operation of kindergartens and pre-schools in Hong Kong and Singapore; (iii) provision of swallowing and speech treatments in Hong Kong; (iv) provision of photographic services in Hong Kong; and (v) provision of English learning courses for adult and national accredited vocational education and training courses on early childhood education and care in Australia.

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statement for the three months ended 31 March 2020 has been prepared in accordance with the Hong Kong Accounting Standards (“**HKAS**”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certificate Public Accountants (“**HKICPA**”) and the applicable disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”).

The unaudited condensed consolidated financial statement have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the ended of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for good and services.

3. APPLICATION OF NEW AND REVISED HKFRSS

In the current period, the Group has adopted all the new and revised HKFRSS issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2020. HKFRSS comprise HKFRS and HKAS and Interpretations. The adoption of these new and revised HKFRSS did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years.

The Group has not applied the new HKFRSS that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSS but is not yet in a position to state whether these new HKFRSS would have a material impact on its results of operations and financial position.

4. REVENUE AND SEGMENT INFORMATION

Revenue represents the fair value of amounts received and receivable for goods sold and services provided by the Group to outside customers, less discount during relevant periods. The Group's operation is derived from jazz and ballet and pop dance academy in Hong Kong, early childhood education in Hong Kong and Singapore and adult education and training business in Australia during the current period. For the purpose of resources allocation and performance assessment, the chief operating decision maker (i.e. the chief executive officer of the Group) has reviewed the overall results and financial position of the Group as a whole. Specifically, the Group's reportable segments under HKFRS 8 are as follows:

Dance academy business – jazz and ballet and pop dance academy in Hong Kong.

Early childhood education business – operation of kindergartens and pre-schools in Hong Kong and Singapore.

Adult education and training business – operation of colleges in Australia

Other operating segments include operation of the provision of swallowing and speech treatments and provision of photographic services for children in Hong Kong. None of these segments met the quantitative thresholds for the reportable segments. Accordingly, these were grouped in "Others".

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

The following is an analysis of the Group's revenue:

	For the three months ended 31 March	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Dance academy business	7,027	15,174
Early childhood education business	8,934	7,080
Adult education and training	13,808	–
Others		
— provision of swallowing and speech treatments	1,070	2,406
— provision of photographic services for children	738	1,216
— others	–	–
	31,577	25,876

Geographical Information

The Group's operations are located in Hong Kong, Singapore and Australia.

Information about the Group's revenue from external customers is presented based on the location of the operations.

	For the three months ended 31 March	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Hong Kong	9,864	19,671
Singapore	7,905	6,205
Australia	13,808	–
	31,577	25,876

Information about major customer

No individual customer was accounted for over 10% of the Group's total revenue for both periods.

5. FINANCE COSTS

	For the three months ended 31 March	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Interest on borrowings	169	13
Interest on corporate bonds	1,347	888
Interest on lease liabilities	1,398	1,206
	2,914	2,107

6. INCOME TAX CREDIT

	For the three months ended 31 March	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Hong Kong Profit Tax		
— Current tax	—	—
Singapore corporate income tax ("CIT")		
— Current year	—	—
Deferred tax	55	56
	55	56

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime was insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

6. INCOME TAX CREDIT (CONTINUED)

Singapore Corporate Income Tax (“CIT”) is calculated at 17% (2019: 17%) of the estimated assessable profit eligible for CIT rebate of 20%, capped at Singaporean dollars (“S\$”) 10,000 for the Year of Assessment 2018 and 2019. Singapore incorporated companies can also enjoy 75% tax exemption on the first S\$10,000 of normal chargeable income and a further 50% tax exemption on the next S\$290,000 of normal chargeable income. The Singapore companies which meet the qualifying condition as start-up companies can enjoy 100% tax exemption on the first S\$100,000 of normal chargeable income and a further 50% tax exemption on the next S\$200,000 of normal chargeable income at the relevant years of assessment.

No provision for corporate tax has been made for the Group’s operation in Australia for the three months ended 31 March 2020 as such operations incurred loss for taxation purpose for the period.

7. LOSS PER SHARE

The calculation of basic loss per share attributable to shareholders of the Company is based on the loss for the period attributable to shareholders of the Company of approximately HK\$28,023,000 (2019: HK\$9,599,000) and the weighted average number of ordinary shares of 354,100,000 (2019: 354,100,000) in issue during the period.

Diluted loss per share

No diluted loss per share had been presented for the three months ended 31 March 2020 and 31 March 2019 since there were no potential ordinary shares in issue during the periods.

8. DIVIDENDS

No dividend was paid or proposed during the three months ended 31 March 2020, nor has any dividend been proposed since the end of the reporting period (for the three months ended 31 March 2019: Nil).

9. RESERVES

	Share premium HK\$'000	Exchange reserve HK\$'000	Fair value reserve HK\$'000	Share options reserve HK\$'000	Other reserve HK\$'000	Accumulated profits (losses) HK\$'000	Total HK\$'000
At 1 January 2019 (audited)	66,892	608	-	-	3,546	(92,593)	(21,547)
Loss for the period	-	-	-	-	-	(9,599)	(9,599)
Other comprehensive income	-	(11)	-	-	-	-	(11)
Loss and total comprehensive expenses for the period	-	(11)	-	-	-	(9,599)	(9,610)
Acquisition of subsidiaries	-	-	-	-	(1,615)	-	(1,615)
At 31 March 2019 (unaudited)	66,892	597	-	-	1,931	(102,192)	(32,772)
At 1 January 2020 (audited)	66,892	544	119	8,647	508	(191,400)	(114,690)
Loss for the period	-	-	-	-	-	(28,023)	(28,023)
Other comprehensive income	-	(1,465)	(1,393)	-	-	-	(2,858)
Loss and total comprehensive income for the period	-	(1,465)	(1,393)	-	-	(28,023)	(30,881)
At 31 March 2020 (unaudited)	66,892	(921)	(1,274)	8,647	508	(219,423)	(145,571)

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group continues focusing on engaging in business of jazz and ballet and pop dance academy in Hong Kong, childcare business in Singapore and adult English language course in Australia. During the three months ended 31 March 2020 (the “**Reporting Period**”), the Group completed the acquisition of Childrens Service Education Pty Limited (“**CSE**”) which operates two colleges in Sydney and Melbourne, Australia. CSE is a registered training organisation in Australia and a specialist provider for national accredited vocational education and training courses on early childhood education and care which included both diploma-granting and certification-granting programmes.

During the Reporting Period, competition in the dance institution industry for children in Hong Kong was intense. The Group continued to maintain and attract students to enroll in the Group’s courses by developing new courses and enhancing courses to respond to changes in market trends so as to expand the Group’s coverage and effectively market the courses to a broader base of students.

The Group implemented a strategy to enhance the Group’s current operation, which is to engage in the kindergarten business in Hong Kong by cooperating with Chatsworth East Asia (BVI) Ltd, being international kindergartens, primary and secondary schools operated under the brand “Chatsworth” in Singapore for over 20 years.

A challenging year is expected for 2020 due to the outbreak of Coronavirus Disease 2019 (the “**COVID-19**”). The Company has implemented various measures, including launch of online teaching platforms, to cope with the adverse changes in environment.

Meanwhile, the Company will also expedite its expansion in the overseas market to diversify and further broaden its source of income. The Group will adopt investment approach prudently to consider all potential mergers or acquisitions opportunities or cooperation with strong potential partners that can maximize shareholders’ return in the long term.

Financial Review

Revenue of the Group was mainly contributed by (i) dance academy business in Hong Kong (the “**Dance Business**”), (ii) early childhood education business in Hong Kong and Singapore (the “**Childhood Education Business**”) and (iii) two colleges in Australia (the “**College Business**”). Total revenue increased by approximately HK\$5.7 million from approximately HK\$25.9 million for the corresponding period in 2019 to approximately HK\$31.6 million for the Reporting Period. The increase was mainly due to the contribution by the College Business amounting to approximately HK\$13.8 million (2019: Nil) which was acquired in the fourth quarter of 2019 and during the Reporting Period. However, due to the temporary closure of dance centres in Hong Kong during the Reporting Period, the revenue from Dance Business decreased by HK\$8.1 million comparing to the corresponding period in 2019.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Financial Review (Continued)

With the expansion of the Childhood Education Business and the College Business, the portion of revenue contributed by the Dance Business to the Group's revenue has been diluted since 2018. On the other hand, due to the expansion of the market share, the Childhood Education Business and the College Business will contribute to the growth of the Group's revenue in the future.

Other income of the Group was approximately HK\$4.5 million (2019: HK\$2.6 million). Other income of the Group mainly comprises the management fee income, sub-lease rental income and bank and loan interest income.

A deed of indemnity ("**Deed**") was entered into between the Company and the representative (the "**Indemnifier**") of an investment manager. The investment manager managed an investment portfolio of the Group with full discretionary investment decision. Pursuant to the Deed, in consideration of the Company continuing to maintain the accounts with the investment manager, the Indemnifier undertook with the Company that the Indemnifier should pay the Company an indemnifying amount under the terms of the Deed which was calculated as HK\$7,000,000 minus the total value of all the assets (net of any liabilities) under the investment portfolio of the Company. The Company disposed of all the investments (so far as they are tradeable) covered by the Deed as at 5 March 2020. On 11 March 2020, the Company withdrew all the investment account balance totalling HK\$4,179,000 and received an indemnified amount of HK\$821,000 from the Indemnifier.

Staff and teaching consultants services costs amounted to approximately HK\$29.3 million during the Reporting Period (2019: approximately HK\$17.3 million), representing an increase by approximately 69.4%. The increase was mainly due to an increase in the headcount in Hong Kong, Singapore and Australia for business expansion in the second half year of 2019 and during the Reporting Period.

Other operating expenses of the Group was approximately HK\$10.4 million during the Reporting Period (2019: approximately HK\$8.9 million), representing an increase of approximately 18.9% as compared to the corresponding period of last year. The increase was mainly attributable to the general expenses incurred by the College Business.

The Group recorded a loss attributable to shareholders of the Company amounting to approximately HK\$28.0 million for the Reporting Period (2019: HK\$9.6 million).

The net loss of the Group increased by HK\$18.2 million from HK\$10.9 million for the corresponding period in 2019 to HK\$29.1 million for the Reporting Period mainly due to the decrease in revenue from Dance Business and the increase in staff costs as discussed above.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Capital Structure

As at 31 March 2020, the authorised share capital of the Company was HK\$800,000,000, divided into 8,000,000,000 shares of HK\$0.1 each (the “**Shares**”) and the issued share capital of the Company was HK\$35,410,000, divided into 354,100,000 shares of HK\$0.1 each.

On 2 January 2020, the Company and Innovax Securities Limited entered into a placing agreement for the placing of unlisted bonds issued by the Company with an aggregate principal amount of up to HK\$50,000,000. One of the investors is a substantial shareholder of the Company who has committed to subscribe for HK\$49,600,000 of the principal amount of such unlisted bonds. Further details of this transaction are set out in the Company’s announcement dated 2 January 2020.

On 17 January 2020, the Company and SDM Australian Education Limited, a wholly-owned subsidiary of the Company, entered into a subscription agreement (the “**Subscription Agreement**”) with Golden Pursue Limited, an independent third party. Pursuant to the Subscription Agreement, SDM Australian Education Limited conditionally agreed to issue and Golden Pursue Limited has conditionally agreed to subscribe for a convertible note in the principal amount of US\$5,000,000 (equivalent to approximately HK\$39,000,000) (the “**New Convertible Note**”). The New Convertible Note will bear coupon interest at the rate of 8% per annum. Unless previously redeemed, converted or repaid and cancelled in accordance with the terms and conditions of the Subscription Agreement, the New Convertible Note shall have a term of 48 months. Further details of this transaction are set out in the Company’s announcement dated 17 January 2020.

Charge on Group’s Assets

As at 31 March 2020 and 31 March 2019, the entire shares in SDM Asia Limited held by the Group were pledged as securities for the outstanding convertible note with carrying amount of HK\$204.5 million.

The time deposits of HK\$8,260,000 (2019: HK\$Nil) were pledged to secure guarantees by banks issued to the landlords of properties leased by the Group for own use.

As at 31 March 2019, the Group pledged its held for trading investments amounting to HK\$3.6 million against its outstanding security margin account balances.

MATERIAL ACQUISITIONS

Pursuant to sale and purchase agreement dated 19 June 2019, the Group has committed to acquire all business assets of Moriah Schoolhouse LLP and Moriah Schoolhouse @ FV LLP (collectively referred to as the “**Moriah Group**”) at a total cash consideration of S\$1,300,000 (equivalent to approximately HK\$7,085,000). Up to 31 December 2019, the Group has paid S\$650,000 (equivalent to approximately HK\$3,765,000) to the vendors. The acquisition of the assets of the Moriah Group was completed after the Group has paid the balance of consideration in January 2020. Details are set out in the Company’s announcements dated 28 June 2019 and 30 September 2019.

Pursuant to sale and purchase agreement dated 14 January 2019, the Group has committed to acquire the entire equity interest of Childrens Services Education Pty Ltd (“**CSE**”) at a consideration of Australian dollars (“**AUS**”) 3,040,000 (equivalent to approximately HK\$14,470,000), subject to adjustment. Up to 31 December 2019, the Group has paid AUS\$1,100,000 (equivalent to approximately HK\$6,033,000) to the vendors. The acquisition of CSE was completed after the Group has paid the balance of consideration in January 2020. Further details of this transaction are set out in the Company’s announcements dated 14 January 2019, 29 January 2019, 29 March 2019, 21 May 2019 and 30 August 2019 and the Company’s circular dated 3 September 2019.

Pursuant to the memorandum of understanding dated 7 August 2019 entered into between SDM Intentional Investments Pte Ltd (“**SDMII**”) as purchaser and the shareholders of target entities which are composed of six private companies limited by shares incorporated in Singapore as vendors, SDMII intended to acquire all of shares of the target entities. On 21 January 2020, SDMII entered into the sale and purchase agreement with three third-party individuals. Pursuant to the sale and purchase agreement, the Group has conditionally agreed to conduct and complete the acquisition of four private companies (the “**Global Tots Group**”) in full for a maximum aggregate consideration of S\$7,800,000 (equivalent to approximately HK\$42,510,000). The Global Tots Group provides day-care and educational services including, but not limited to, developing and running educational and enrichment programmes and providing day-care services to infant and children. The transaction constitutes a major transaction acquisition of the Company under the GEM Listing Rules. On 13 March 2020, the Company announced that as additional time is required for the fulfillment of the conditions precedent in the sale and purchase agreement, SDMII and the vendors entered into a supplemental agreement to the sale and purchase agreement, pursuant to which SDMII and the vendors agreed to extend the long stop date from 13 March 2020 to 29 April 2020. Further details of this transaction are set out in the Company’s announcements dated 7 August 2019, 21 January 2020, 6 February 2020, 13 February 2020 and 6 March 2020 and 13 March 2020 and the Company’s circular dated 26 March 2020.

SIGNIFICANT INVESTMENTS

As at 31 March 2020, except for the financial investments which amounted to HK\$14.6 million (2019: HK\$75.7 million), there was no other significant investment held by the Group.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Looking forward, the Group will endeavor to strengthen its position in the dance institution industry in Hong Kong and overseas markets. The Board is still looking for other investment opportunities aiming at exploring the feasibility of further expansion in dance institution business including but not limited to, the dance institution industry in Asia.

The Group has been proactive in seeking appropriate investment opportunities to expand its business scope and to diversify its existing business. Since the second half of 2018, the Group officially stepped foot on the mainstream education market overseas through its proposed acquisition of several pre-schools in Singapore ("**Acquisition**") and education business in Australia.

The Acquisition is in line with the business development plan and expansion plan of the Group. The Board believes that the Acquisition provides an excellent development platform and opportunity to expand its early childhood education business into international markets. The Group's core business — jazz and ballet and pop dance academy can generate synergies with mainstream education to expand its business into the overseas market and enhance the competitiveness of the Group. The Board believes that the Acquisition provides excellent investment opportunity for the Group to further establish its position in targeting children from 2 to 12 years old.

The Group will continue searching for suitable opportunities to expand its business into Hong Kong and overseas markets.

CONTINGENT LIABILITIES

As at 31 March 2020, the Group did not have any significant contingent liabilities (2019: Nil).

MATERIAL EVENTS AFTER THE REPORTING DATE

On 1 April 2020, SDM-Ichiban Preschool Pte. Ltd., a wholly owned subsidiary of the Company, and Ichiban (Noble) Childcare Pte. Ltd and Ichiban (Yunnan) Childcare Centre (collectively "**the Ichiban Entities**") entered into a sale and purchase agreement ("**Ichiban SPA**"). Pursuant to the Ichiban SPA, the Group has conditionally agreed to purchase certain assets of the Ichiban Entities at a cash consideration of S\$600,000 (equivalent to approximately HK\$3,270,000). The acquisition of the assets of the Ichiban Entities was completed on 1 April 2020. Further details of this transaction are set out in the Company's announcement dated 1 April 2020 and 16 April 2020. The Group is assessing the fair value of assets of the Ichiban Entities acquired on the completion date.

MATERIAL EVENTS AFTER THE REPORTING DATE (CONTINUED)

On 17 April 2020, SDM Management Limited, Mutual Bright Corporation Limited (“**Mutual Bright**”), Mr. Hung (shareholder of joint venture), SDM Academie Limited and the Company entered into a sale and purchase agreement under which SDM Management Limited shall dispose 50% of its equity interest in Mutual Bright to Mr. Hung for a consideration of HK\$1.00; under the same agreement, SDM Academie Limited shall acquire the business and properties of Mutual Bright for HK\$4,000,000 (the “**Second Consideration**”) ; and under the same agreement, SDM Management Limited shall acquire 50% equity interest in Well Team International Development Limited, a joint venture for HK\$2,000,000 (the “**Third Consideration**”). The aggregation of the Second Consideration and the Third Consideration of HK\$6,000,000 shall be settled and discharged by the Company’s allotment and issuance of 4,000,000 consideration shares under the general mandate granted by the shareholders of the Company (the “**Shareholders**”) on 6 May 2019 at the issue price of HK\$1.50 per consideration share. Further details of this transactions are set out in the Company’s announcement dated 17 April 2020.

The acquisition of Global Tots Group was completed on 20 April 2020. The Group is assessing the fair value of assets and liabilities of Global Tots Group on the completion date.

The COVID-19 Outbreak since early 2020 has brought uncertainties to the economic environment and has impacted on the Group’s operations and financial position.

The Group has been closely monitoring the impact of the developments of the COVID-19 Outbreak on the Group’s businesses and has put in place contingency measures. These contingency measures include temporary suspension of classes in Hong Kong, introduction of online courses and implementation of temporary cost-saving measures.

As far as the Group’s businesses are concerned, the COVID-19 Outbreak has caused class suspensions and extended the course duration which would delay revenue recognition of the Group. Based on the information currently available, management estimates that this would result in a negative impact to the revenue for the financial year ending 31 December 2020.

OTHER INFORMATION

Disclosure of Interests

(a) *Directors' and Chief executive's interests in Shares*

As at 31 March 2020, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Long positions in the Shares of the Company

Name of Directors and chief executive	Nature of interest/ holding capacity	Number of ordinary shares held	Number of underlying shares held	Percentage of interest in the Company's issued share capital (Note 1)
Mr. Chiu Ka Lok ("Mr. Chiu")	Interest of a controlled corporation, beneficial owner and family interest	198,750,000 (Note 2)	7,082,000	58.13%
Dr. Chun Chun	Beneficial owner and family interest	198,750,000 (Note 3)	7,082,000	58.13%
Mr. Chun Chi Ngon Richard	Beneficial owner and family interest	–	7,082,000	2.00%
Ms. Yeung Siu Foon	Beneficial owner and family interest	–	7,082,000	2.00%

Notes:

- (1) As at 31 March 2020, the total issued share capital of the Company was HK\$35,410,000 divided into 354,100,000 Shares of HK\$0.1 each.
- (2) Wealthy Together, is wholly and beneficially owned by Mr. Chiu, an executive Director and the Chairman of the Company. Mr. Chiu is deemed to be interested in 198,750,000 Shares held by Wealthy Together by virtue of his 100% shareholding interest in Wealthy Together.

OTHER INFORMATION (CONTINUED)

Disclosure of Interests (Continued)

(a) *Directors' and Chief executive's interests in Shares (Continued)*

Long positions in the Shares of the Company (Continued)

Notes: (Continued)

- (3) Dr. Chun Chun, a non-executive Director, is the spouse of Mr. Chiu and is therefore deemed to be interested in all the shares held/owned by Mr. Chiu (by himself or through Wealthy Together) by virtue of the SFO.

- (4) Mr. Chun Chi Ngon Richard, an executive Director and the chief executive officer of the Company, and Ms. Yeung Siu Foon, a non-executive Director, are both beneficially deemed to be interested in 3,541,000 Shares each which may be issued to them upon the exercise of the share options granted to them on 4 October 2019 under the share option Scheme (as defined below). Also, as Mr. Chun Chi Ngon Richard and Ms. Yeung Siu Foon are the spouse of each other, they are both deemed to be interested in all the underlying Shares held/owned by each other by virtue of the SFO.

Save as disclosed above, as at 31 March 2020, none of the Directors nor chief executives of the Company had or was deemed to have any other interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

OTHER INFORMATION (CONTINUED)

Disclosure of Interests (Continued)

(b) **Substantial shareholders' and other persons' interests and short positions in Shares and underlying Shares of the Company**

So far as is known to the Directors, as at 31 March 2020, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions (directly or indirectly) in the Shares or underlying Shares of the Company that would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in the Shares of the Company

Name of Shareholder	Nature of interest/ holding capacity	Number of shares	Percentage of interests in the Company's issued share capital (Note 2)
Wealthy Together	Beneficial owner	198,750,000 (Note 1)	56.13%
Hui Pui Cheung	Beneficial owner	49,654,000	14.02%
Chen Jiabin	Interest of a controlled corporation	28,000,000	7.91%
Tycoon Mind Limited	Beneficial owner	28,000,000	7.91%

Notes:

- (1) Wealthy Together is beneficially and wholly owned by Mr. Chiu, an executive Director and the Chairman of the Company. By virtue of the SFO, Mr. Chiu is deemed to be interested in the shares held by Wealthy Together.
- (2) As at 31 March 2020, the total issued share capital of the Company was HK\$35,410,000 divided into 354,100,000 Shares of HK\$0.1 each.

Save as disclosed above, as at 31 March 2020, the Directors were not aware of any other persons (other than the Directors or the chief executive of the Company) who had, or was deemed to have, interest or short positions in the Shares or underlying Shares of the Company would fall to be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

The Company's share option scheme (the "**Share Option Scheme**") was conditionally adopted by a written resolutions of the Shareholders on 26 September 2014, and is a share incentive scheme prepared in accordance with Chapter 23 of the GEM Listing Rules and is established to recognize and acknowledge the contribution of the Directors, other employees and other eligible participants who have made valuable contribution to the Group.

The maximum number of shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme shall not, in the absence of shareholders' approval, in aggregate exceed 10% in nominal amount of the total number of shares in issue immediately following the completion of the offering for the Listing of the Shares of the Company (i.e. 20,000,000) (the "**Scheme Limit**"). Options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating the Scheme Limit.

The Company may renew the Scheme Limit at any time subject to prior shareholders' approval but in any event, the total number of shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme under the limit as refreshed must not exceed 10% of the shares in issue as at the date of the Shareholders' approval of the renewed limit.

A Company's circular dated 6 May 2019 was sent to shareholders by the Company in relation to "Proposal for Refreshment of Share Option Scheme Mandate Limit and Notice of Extraordinary General Meeting" (the "**May Circular**"). Pursuant to the May Circular, the Company proposes to seek the approval of the Shareholders to approve the Refreshment (as defined in the May Circular) so that the total number of Shares (as defined in the May Circular) which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not exceed 35,410,000 Shares, representing 10% of the Shares in issue as at the date of approval of the Refreshment by the Shareholders at the Latest Practicable Date (as defined in the May Circular), assuming that the number of Shares in issue remains unchanged prior to the date of the extraordinary general meeting to be held by the Company on 27 May 2019 (the "**2019 May EGM**"). The Refreshment is approved by the Shareholders at the 2019 May EGM.

The Company issued another circular dated 18 December 2019 to the Shareholders in relation to "Proposal for Refreshment of Share Option Scheme Mandate Limit and Notice of Extraordinary General Meeting" (the "**December Circular**"). Pursuant to the December Circular, the Company proposes to seek the approval of the Shareholders to approve the Refreshment (as defined in the December Circular) so that the total number of Shares (as defined in the December Circular) which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not exceed 35,410,000 Shares, representing 10% of the Shares in issue as at the date of approval of the Refreshment by the Shareholders on 13 December 2019, assuming that the number of Shares in issue remains unchanged prior to the date of the extraordinary general meeting to be held by the Company on 10 January 2020 (the "**2020 January EGM**"). The Refreshment is approved by the Shareholders at the 2020 January EGM.

Pursuant to the 2020 January EGM, the Company granted 6,380,000 share options (one share for each option) at an exercise price of HK\$1.20 per share on 11 February 2020 and 2,300,000 share options (one share for each option) at an exercise price of HK\$1.44 per share on 25 February 2020 to certain eligible participants, subject to the acceptance of the grantees, under the Share Option Scheme adopted by the Company on 26 September 2014, details of which are set out in the Company's announcements dated 11 February 2020 and 25 February 2020.

SHARE OPTION SCHEME (CONTINUED)

As at 31 March 2020, the Company had 44,090,000 outstanding share options under the Share Option Scheme carrying rights for the holders thereof to subscribe for an aggregate of 44,090,000 new Shares, details of movements of which are set out below:

Date of grant	Owners/Grantees	Number of share options					At 31 March 2020	Exercise period	Exercise Price HK\$
		At 1 Jan 2019	Granted	Exercised	Lapsed	Cancelled			
4 October 2019	Directors							4 October 2019 to 3 October 2022	1.10
	– Mr. Chiu Ka Lok	3,541,000	–	–	–	–	3,541,000	4 October 2019 to 3 October 2022	1.10
	– Mr. Chun Chi Ngon, Richard	3,541,000	–	–	–	–	3,541,000	4 October 2019 to 3 October 2022	1.10
	– Ms. Yeung Siu Foon	3,541,000	–	–	–	–	3,541,000	4 October 2019 to 3 October 2022	1.10
	– Dr. Chun Chun	3,541,000	–	–	–	–	3,541,000	4 October 2019 to 3 October 2022	1.10
	Employees	10,623,000	–	–	–	–	10,623,000	4 October 2019 to 3 October 2022	1.10
11 October 2019	Consultants	10,623,000	–	–	–	–	10,623,000	11 October 2019 to 10 October 2022	1.00
11 February 2020	Employees	–	3,280,000	–	–	–	3,280,000	11 February 2020 to 10 February 2023	1.20
	Consultants	–	2,100,000	–	–	–	2,100,000	11 February 2020 to 10 February 2022	1.20
	Business partner	–	1,000,000	–	–	–	100,000	11 February 2020 to 10 February 2022	1.20
25 February 2020	Employee	–	300,000	–	–	–	300,000	25 February 2020 to 24 February 2020	1.44
	Consultants	–	2,000,000	–	–	–	2,000,000	25 February 2020 to 24 February 2020	1.44
		35,410,000	8,680,000	–	–	–	44,090,000		

COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors or the controlling shareholder of the Company or any of their respective associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the Reporting Period.

NON-COMPETITION UNDERTAKINGS

Each of the controlling shareholders of the Company has undertaken to the Company in the deed of non-competition (the **"Deed of Non-Competition"**) that it/he will not, and procure its/his associates (other than members of our Group) not to directly or indirectly be involved in or undertake any business that directly or indirectly competes, or may compete, with the Group's business or undertaking, or hold shares or interest in any companies or business that compete directly or indirectly with the business engaged by the Group from time to time except where the controlling shareholders hold less than 5% of the total issued share capital of any company (whose shares are listed on the Stock Exchange or any other stock exchange) which is engaged in any business that is or may be in competition with any business engaged by any member of the Group.

For the year ended 31 December 2019, the Company has received an annual written confirmation from each controlling shareholder of the Company in respect of its/his and its/his associates' compliance with the Deed of Non-Competition. The independent non-executive Directors have also reviewed and were satisfied that each of the controlling shareholders of the Company had complied with the Deed of Non-Competition.

CODE OF CORPORATE GOVERNANCE PRACTICES

The Company endeavors to adopt prevailing best corporate governance practices. For the three months ended 31 March 2020, the Company had complied with all the code provisions set out in the Corporate Governance Code as contained in Appendix 15 of the GEM Listing Rules and there has been no deviation in relation thereto.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors (the **"Code of Conduct"**) on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the **"Required Standard Dealings"**). The Company had also made specific enquiry of all the Directors and each of them was in compliance with the Code of Conduct and Required Standard Dealings during the Reporting Period. Further, the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors for the three months ended 31 March 2020.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

AUDIT COMMITTEE

The financial information in this report has not been audited by the auditor of the Company. The Company's audit committee (the **"Audit Committee"**), comprising Mr. Lau Sik Yuen, Dr. Yuen Man Chun Royce and Mr. Chak Chi Shing, being the independent non-executive Directors, has reviewed with the Company's management the accounting principles and practices adopted by the Group and financial reporting matters including a review of the unaudited consolidated results of the Group for the three months ended 31 March 2020. There were no disagreements within the Audit Committee in relation to the accounting treatments adopted by the Company.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises Mr. Chiu Ka Lok (Chairman) and Mr. Chun Chi Ngon Richard (Chief Executive Officer), as the executive Directors, Dr. Chun Chun and Ms. Yeung Siu Foon, as the non-executive Directors and Mr. Lau Sik Yuen, Dr. Yuen Man Chun Royce and Mr. Chak Chi Shing, as the independent non-executive Directors.

By Order of the Board
SDM Group Holdings Limited
Mr. Chiu Ka Lok
Chairman

Hong Kong, 15 May 2020